

MONTHLY FINANCIAL REPORT

December 2008

Preliminary and Unaudited

CALIFORNIA INDEPENDENT SYSTEM OPERATOR CORPORATION
MONTHLY FINANCIAL REPORT - December 2008 (Preliminary and Unaudited)

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CALIFORNIA ISO

SUMMARY, DISCUSSION AND COMMENTARY (Based on Preliminary and Unaudited Statements)

For the year ended December 31, 2008

OPERATIONS: (pages 1, 5, 6, and 7)

- ♦ Operating Revenues for December were \$15.7M, \$0.3M lower than budget.
 - The variance was primarily due to a lower estimated Grid Management Charge (GMC) for the month as a result of lower than forecasted load and exports brought about by the relatively mild weather, partially offset by higher than forecasted congestion management and market usage volumes.
- ♦ Operating Revenues for the year to date were \$199.5M, \$2.2M higher than budget.
 - The variance is primarily due to higher GMC revenues, due to increased Instructed Energy and Uninstructed Imbalance Energy, the likely result of the disruptions caused by wildfires in May-July.
- ♦ Operation and maintenance (O&M) expenses for December were \$12.3M, \$0.2M higher than budget.
 - The variance was primarily due to timing of payments between months.
- ♦ O&M expenses for the year to date were \$152.4M, \$0.2M lower than budget.
 - The variance was primarily due to lower expenses in most categories (including third party vendor contracts, legal and audit costs, and transportation and travel) during the year offset by higher salaries and benefits expenses and consulting and contracting costs. The increased labor expenses were primarily due to higher than anticipated overtime costs and staffing above the level assumed in the 2008 budget (which included a 2.5% vacancy factor).
- ♦ There were 583 full-time employees compared to the 545 full-time employees budgeted (excluding the vacancy factor of 2.5%). The overage is primarily related to the in-sourcing of services previously performed by an outside vendor.

INTEREST COSTS and INTEREST INCOME: (page 1)

- ♦ Through June, the average interest rate on ISO bonds was 5.17%, 1.51% higher than the budgeted rate of 3.57%. The higher rates were attributable to investor concerns about the financial health of the bond insurers that support CAISOs variable rate demand bonds. In June 2008, the ISO issued new debt and refinanced existing debt by issuing fixed rate bonds with an effective interest rate of 3.56%. Interest cost for the for the year will exceed budget by \$1.0 million. Overall interest expense for the year is higher due to the interest on the generator fines accounts, which are excluded from the budget.
- ♦ Interest income for the year to date is \$3.9M, \$1.7M higher than budget. The interest income is reduced due to unrealized losses on its investments and declining interest rates. In past years, interest earnings have been much higher than budget due to the earnings of the generator fines accounts, which are excluded from the budget.

UNREALIZED LOSS ON INVESTMENTS: (page 1)

- ♦ Due to the recent turbulent events in the financial markets, the ISO has unrealized losses on its investment portfolio of approximately \$4.3M in a total portfolio of \$287M. The ISO is actively monitoring its portfolio and is carefully assessing its options. However, the ISO expects that losses will be reflected in the Statement of Operations in the financial statements prepared using Government Accounting Standards Board (GASB) requirements, but will be excluded from the Statement of Operations in FERC reports (including rates) prepared under Financial Accounting Standards Board (FASB) rules.

CALIFORNIA ISO
SUMMARY, DISCUSSION AND COMMENTARY (Based on Preliminary and Unaudited Statements)

For the year ended December 31, 2008

BALANCE SHEET: (page 2)

- ♦ The changes in receivables and investments are primarily due to normal business activities during the month.

CAPITAL PROJECTS: (pages 3 and 7)

- ♦ 2008 capital projects were budgeted for the year at \$43.0M and include \$13.0M for Market Redesign and Technology Upgrade (MRTU) projects. 2008 capital projects approved through December totaled \$47.6M.
- ♦ Actual expenditures to date for 2008 approved capital projects totaled \$40.2M. Expenditures for 2007 approved capital projects totaled \$2.9M.

The ISO Markets

MARKET CHARGES: (page 8 and 9)

- ♦ The total costs managed by the ISO include GMC, RMR, A/S Capacity, Real Time Energy and Transmission.

OBLIGATIONS OF MARKET PARTICIPANTS: (pages 10 and 11)

- ♦ Outstanding obligations of market participants increased during the summer months, reflecting the seasonal high energy usage during the period. While credit monitoring required increased vigilance for the 3rd and 4th quarters as a consequence of the financial crisis, no market losses are anticipated.

CALIFORNIA ISO

Statement of Operations (Preliminary and Unaudited)

For the year ended December 31, 2008

(dollars in thousands)

	Month				Year to Date				2008
	Actual	Budget	Variance	Var (%)	Actual	Budget	Variance	Var (%)	Budget
Revenues:									
Grid Management Charge	\$ 15,200	\$ 15,516	\$ (316)	-2%	\$ 193,961	\$ 191,635	\$ 2,326	1%	\$ 191,635
Fines, WSCC & Other Fees	456	467	(11)	-2%	5,518	5,609	(91)	-2%	5,609
Total revenues	<u>15,656</u>	<u>15,983</u>	<u>(327)</u>	-2%	<u>199,479</u>	<u>197,244</u>	<u>2,235</u>	1%	<u>197,244</u>
Operating Expenses:									
Salaries and Benefits	8,234	7,114	1,120	16%	97,030	91,906	5,124	6%	91,906
Building, Leases and Facility	565	814	(249)	-31%	9,509	9,621	(112)	-1%	9,621
Insurance	(242)	1	(243)	0%	1,775	2,012	(237)	*	2,012
Third Party Vendor Contracts	1,049	1,673	(624)	-37%	17,307	20,856	(3,549)	-17%	20,856
Consulting and Contracting Services	2,032	1,031	1,001	97%	15,925	13,320	2,605	20%	13,320
Legal and Audit	(117)	819	(936)	-114%	4,903	7,032	(2,129)	-30%	7,032
Training, Travel and Professional Dues	338	376	(38)	-10%	3,399	4,682	(1,283)	-27%	4,682
Other	420	225	195	87%	2,586	3,168	(582)	-18%	3,168
Total operating expenses	<u>12,279</u>	<u>12,053</u>	<u>226</u>	2%	<u>152,434</u>	<u>152,597</u>	<u>(163)</u>	0%	<u>152,597</u>
Net operating income (loss)	<u>3,377</u>	<u>3,930</u>	<u>(553)</u>	-14%	<u>47,045</u>	<u>44,647</u>	<u>2,398</u>	5%	<u>44,647</u>
Interest and Other Expenses									
Interest income & other	2,589	184	2,405	1307%	3,907	2,205	1,702	77%	2,205
Interest expense	1,676	413	1,263	306%	13,111	5,441	7,670	141%	5,441
Unrealized loss on investments (see Exec Summary)									
Depreciation and amortization	1,092	1,092	-	0%	12,711	12,711	-	0%	13,800
Total interest and other expenses	<u>179</u>	<u>1,321</u>	<u>(1,142)</u>	-86%	<u>21,915</u>	<u>15,947</u>	<u>5,968</u>	37%	<u>17,036</u>
Excess (Deficiency) of Revenues Over Expenses	<u>\$ 3,198</u>	<u>\$ 2,609</u>	<u>\$ 589</u>	23%	<u>\$ 25,130</u>	<u>\$ 28,700</u>	<u>\$ (3,570)</u>	-12%	<u>\$ 27,611</u>
Number of Full-time Employees (Note 1)	<u>583</u>	<u>545</u>	<u>38</u>	7%					<u>545</u>

Note 1: Includes capital budgeted positions.

CALIFORNIA ISO**Balance Sheet (Preliminary and Unaudited)**

As of December 31, 2008

(dollars in thousands)

	<u>Current Month</u>	<u>Prior Month</u>	<u>Change</u>
ASSETS			
NET ELECTRIC UTILITY PLANT	<u>\$ 247,628</u>	<u>\$ 244,174</u>	<u>\$ 3,454</u>
CURRENT ASSETS			
Unrestricted Cash and Cash Equivalents	91,274	107,023	(15,749)
Restricted Cash and Cash Equivalents	70,454	70,282	172
Other Special Deposits	21,748	21,745	3
Accounts Receivable, net	66,536	51,247	15,289
Investments	73,538	73,847	(309)
Accrued Interest	1,083	28	1,055
Prepayments	6,864	6,570	294
Total Current Assets	<u>331,497</u>	<u>330,742</u>	<u>755</u>
NONCURRENT ASSET AND DEFERRED CHARGES			
Unamortized debt expenses and other	15,020	3,251	11,769
Total Noncurrent Asset and Deferred Charges	<u>15,020</u>	<u>3,251</u>	<u>11,769</u>
TOTAL ASSETS	<u><u>\$ 594,145</u></u>	<u><u>\$ 578,167</u></u>	<u><u>\$ 15,978</u></u>
CAPITALIZATION AND LIABILITIES			
CAPITALIZATION			
Stakeholders' Surplus	\$ 235,738	\$ 232,540	\$ 3,198
Long-term Debt	172,772	173,140	(368)
TOTAL CAPITALIZATION	<u>408,510</u>	<u>405,680</u>	<u>2,830</u>
CURRENT LIABILITIES			
Long-term debt due within one year	31,000	31,000	-
Accounts Payable	29,090	26,271	2,819
Fines subject to refund	124,352	114,023	10,329
Total Current Liabilities	<u>184,442</u>	<u>171,294</u>	<u>13,148</u>
NONCURRENT LIABILITY AND DEFERRED CREDITS			
Other	1,193	1,193	-
Total Noncurrent Liability and Deferred Credits	<u>1,193</u>	<u>1,193</u>	<u>-</u>
TOTAL LIABILITIES	<u>185,635</u>	<u>172,487</u>	<u>13,148</u>
TOTAL CAPITALIZATION AND LIABILITIES	<u><u>\$ 594,145</u></u>	<u><u>\$ 578,167</u></u>	<u><u>\$ 15,978</u></u>

CALIFORNIA ISO
Capital Projects Report (Preliminary and Unaudited)

For the year ended December 31, 2008

(dollars in thousands)

	Approved Projects				
	Month	YTD	2008	Projected	Original
	<u>Actual</u>	<u>Actual</u>	<u>Approved</u>	<u>Costs for</u>	<u>2008</u>
			<u>Projects</u>	<u>Approved</u>	<u>Budget</u>
				<u>Projects</u>	
Compliance/Regulatory	\$ 1,200	\$ 4,857	\$ 7,186	\$ 7,190	\$ 10,500
Essential / Corporate Infrastructure	227	5,905	9,366	9,404	7,900
Strategic Initiatives	277	1,497	5,848	5,848	10,100
Future Market Enhancements	72	778	1,682	1,682	1,500
Market Redesign	1,417	14,370	7,518	16,716	7,518
Technology Upgrade	444	8,805	5,459	9,142	5,459
Iron Point Project Phase 2	495	3,947	10,000	10,000	-
Total 2008 Capital Spending	<u>4,132</u>	<u>40,159</u>	<u>47,059</u>	<u>59,981</u>	<u>42,977</u>
2007 Capital Projects	<u>141</u>	<u>2,882</u>	<u>3,417</u>	<u>3,417</u>	
Total Capital	<u>\$ 4,273</u>	<u>\$ 43,041</u>	<u>\$ 50,476</u>	<u>\$ 63,399</u>	<u>\$ 42,977</u>

Notes:

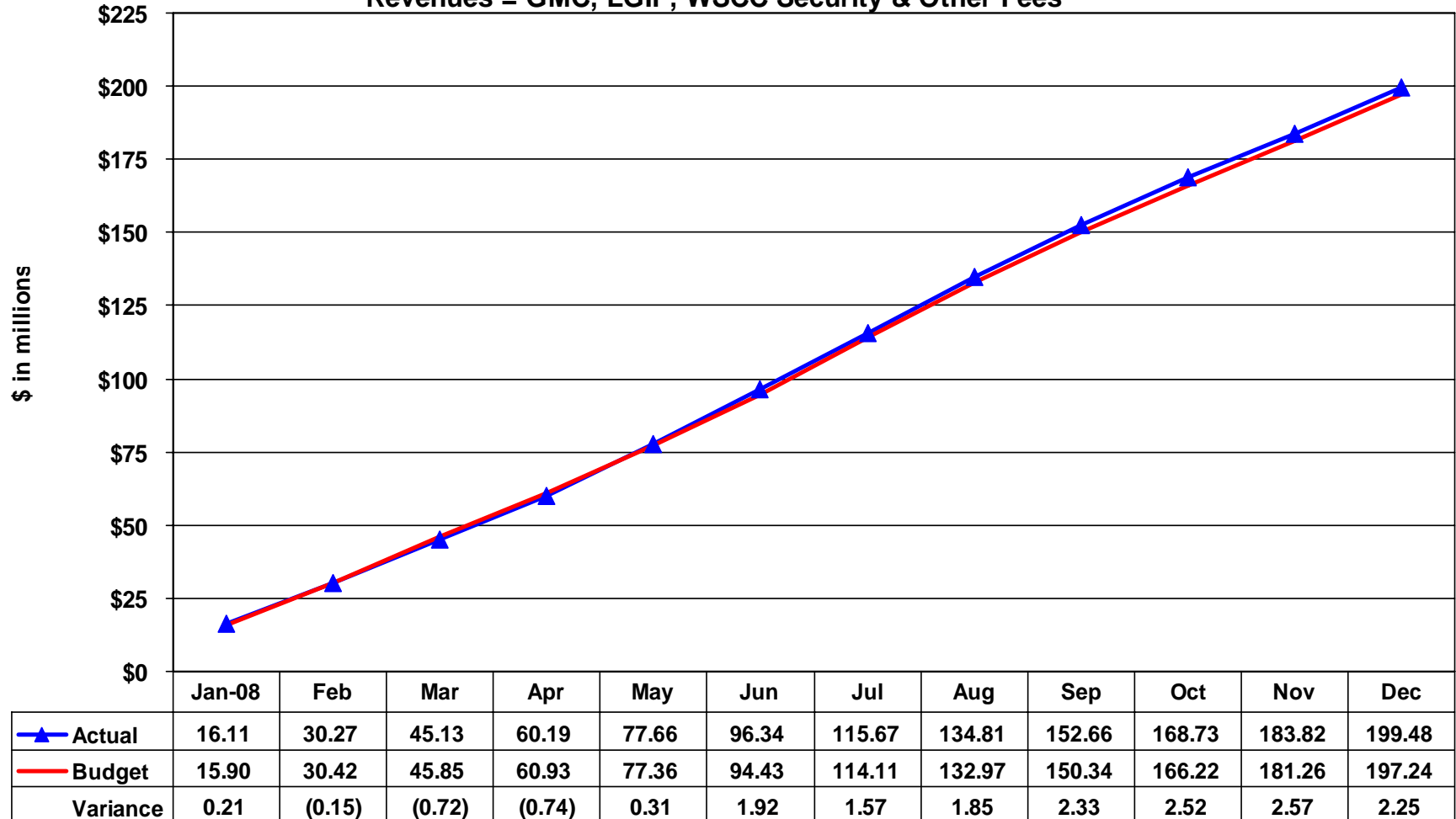
Prior year capital projects are funded by prior year rate collections.

The Iron Point Project Phase 2 is to be funded from 2008 bond proceeds until permanent facility financing is obtained, which is planned for 2009.

Cumulative Operating Revenues

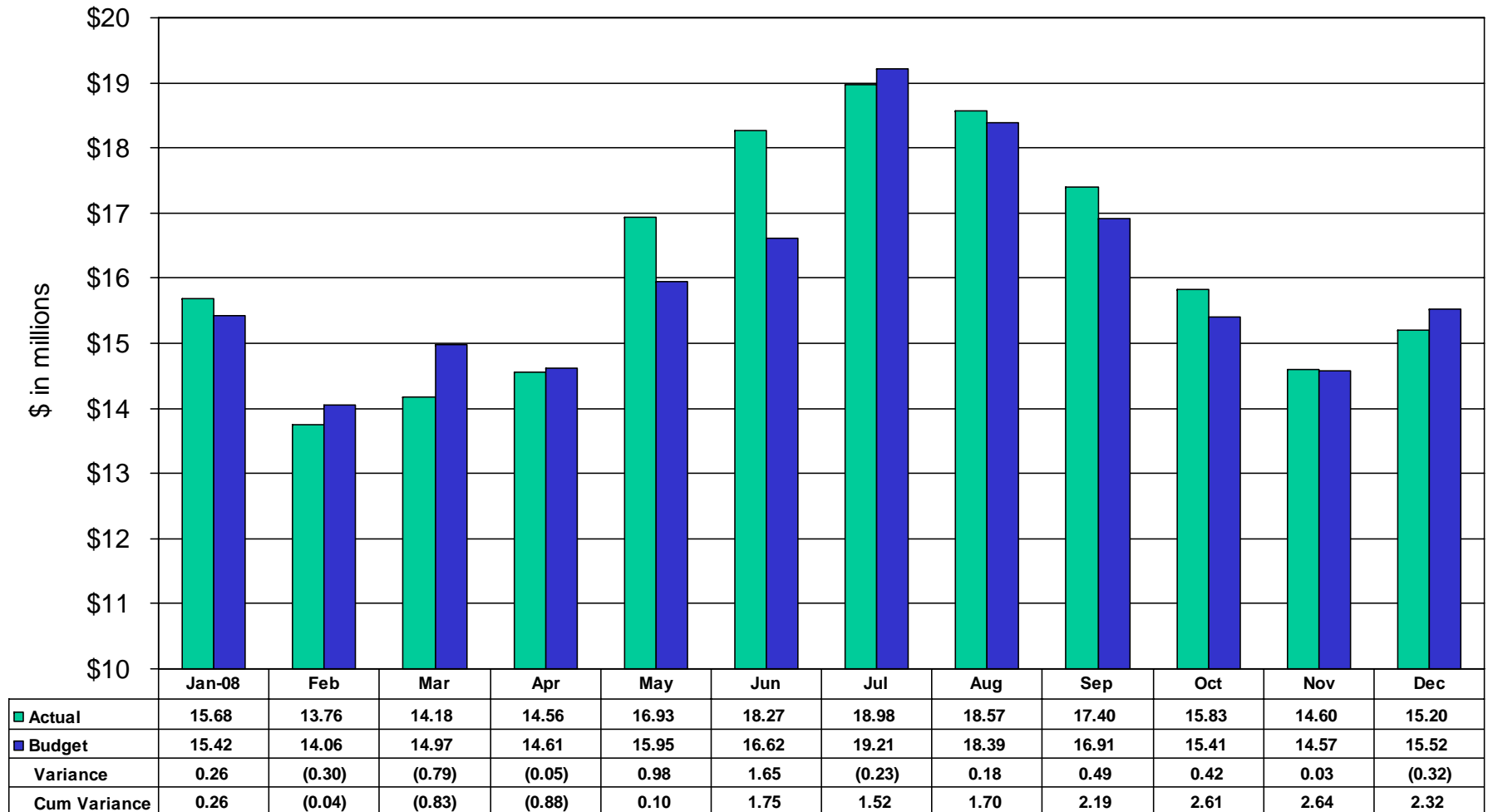
(Preliminary and Unaudited)

Revenues = GMC, LGIP, WSCC Security & Other Fees



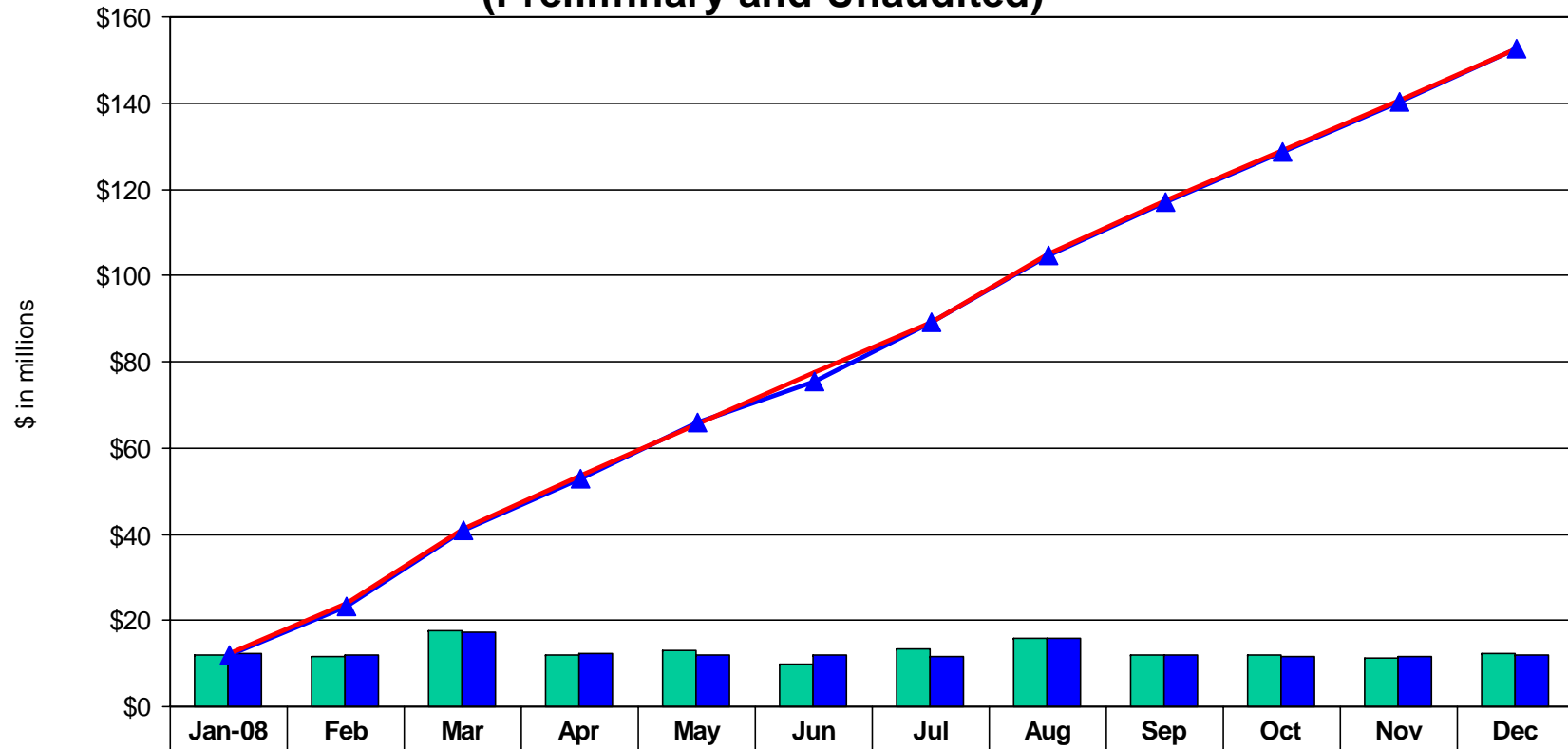
October, November and December revenues are estimates.

Monthly GMC Revenues (Preliminary and Unaudited)



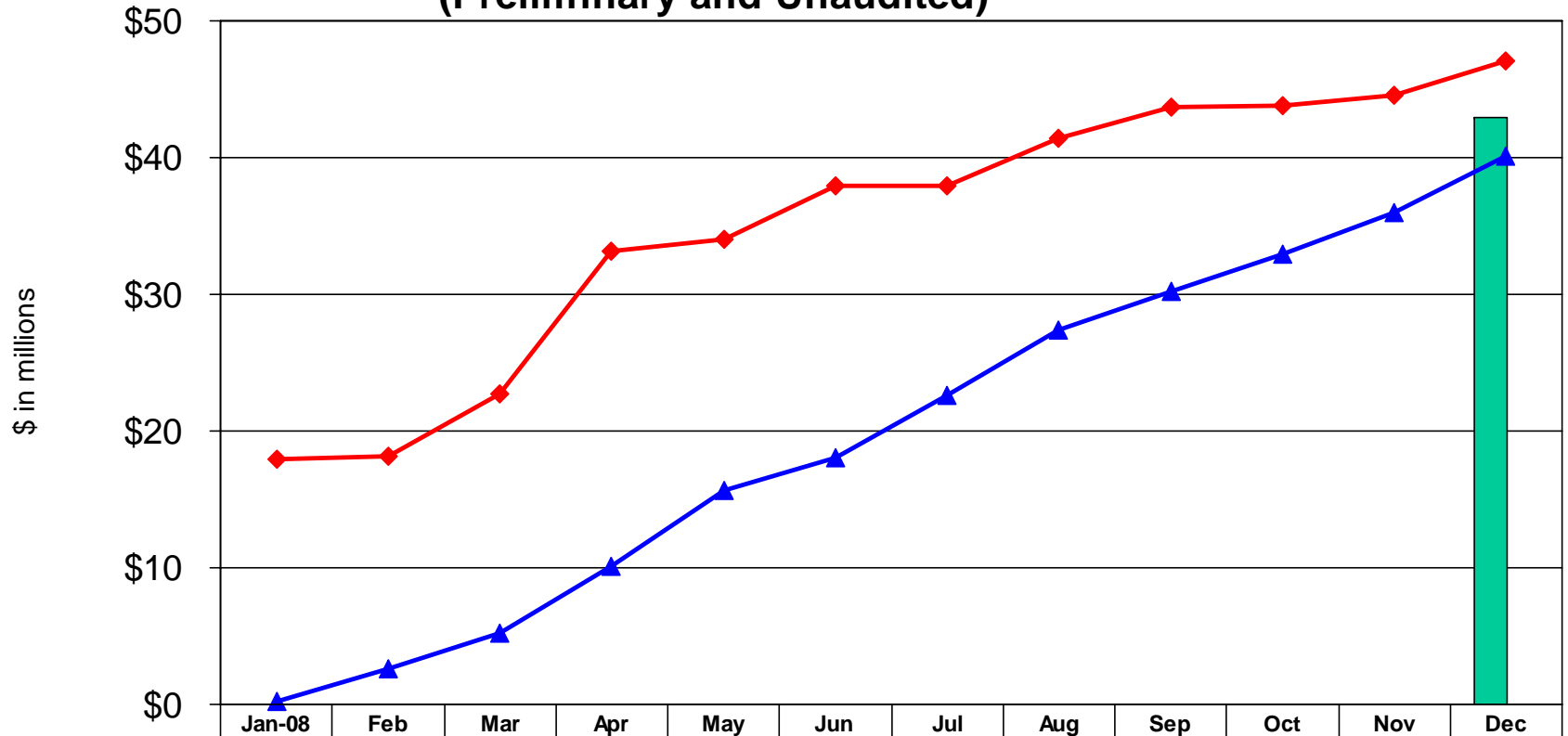
October, November and December revenues are estimates.





Operating and Maintenance Expenses (O&M) (Preliminary and Unaudited)



	Jan-08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Monthly Actual	11.84	11.49	17.55	11.93	12.95	9.83	13.44	15.80	12.07	11.91	11.34	12.28
Monthly Budget	12.25	11.82	17.20	12.21	12.15	11.84	11.80	15.86	12.08	11.71	11.63	12.05
Cum Actual	11.84	23.33	40.88	52.81	65.76	75.59	89.03	104.83	116.90	128.81	140.15	152.43
Cum Budget	12.25	24.07	41.27	53.48	65.63	77.47	89.26	105.12	117.20	128.91	140.54	152.59
Cum Variance	0.41	0.74	0.39	0.67	(0.13)	1.88	0.23	0.29	0.30	0.10	0.39	0.16

Cumulative Capital Expenditures (Preliminary and Unaudited)

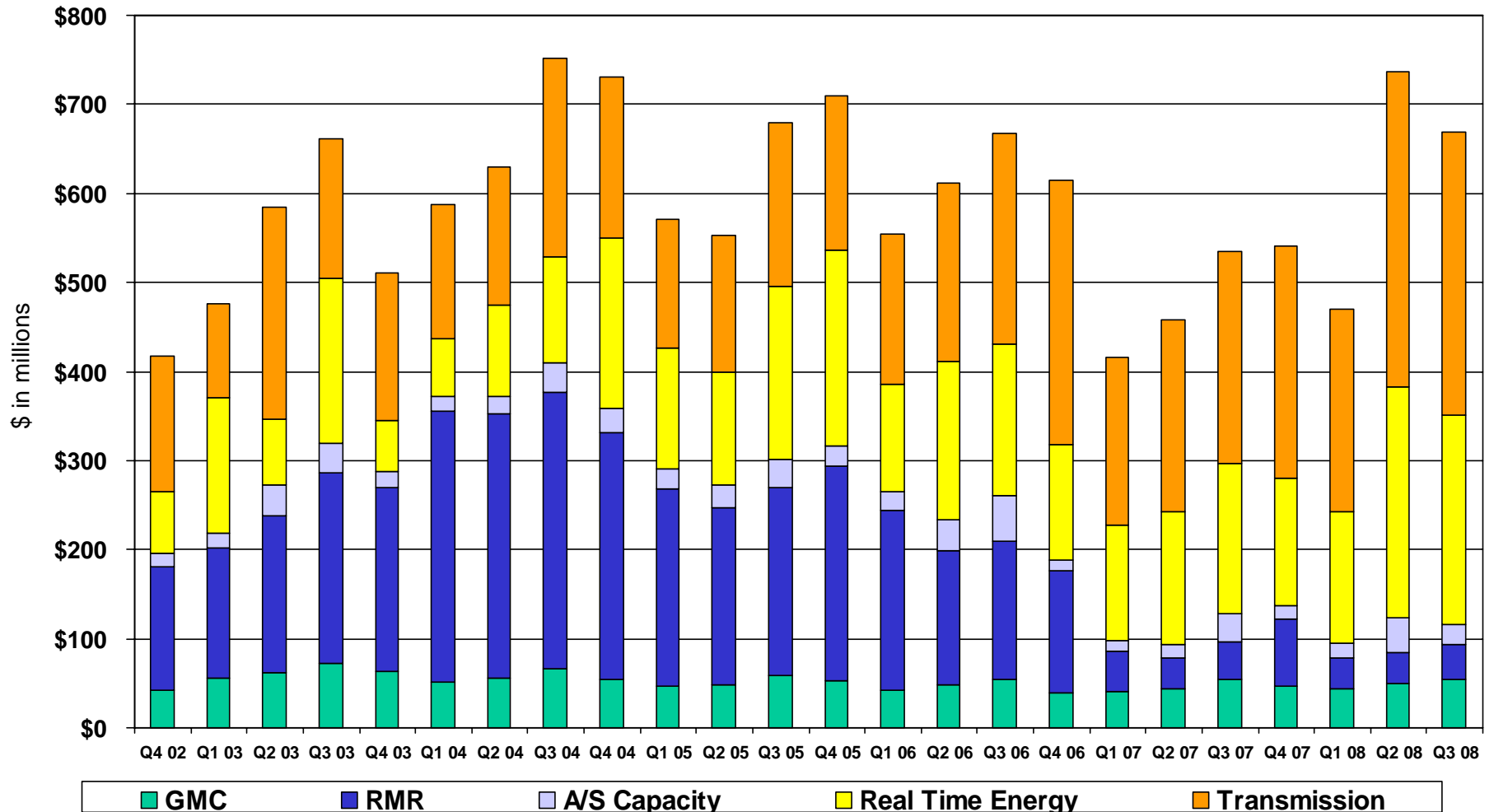


	Jan-08	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
 Budgeted capital												42.98
 2008 O&M Impact	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
 Cumulative Expenditures	0.23	2.62	5.22	10.06	15.61	18.02	22.60	27.37	30.27	32.95	36.03	40.16
 Approved projects	17.89	18.13	22.77	33.17	34.06	37.95	37.95	41.37	43.73	43.83	44.58	47.06

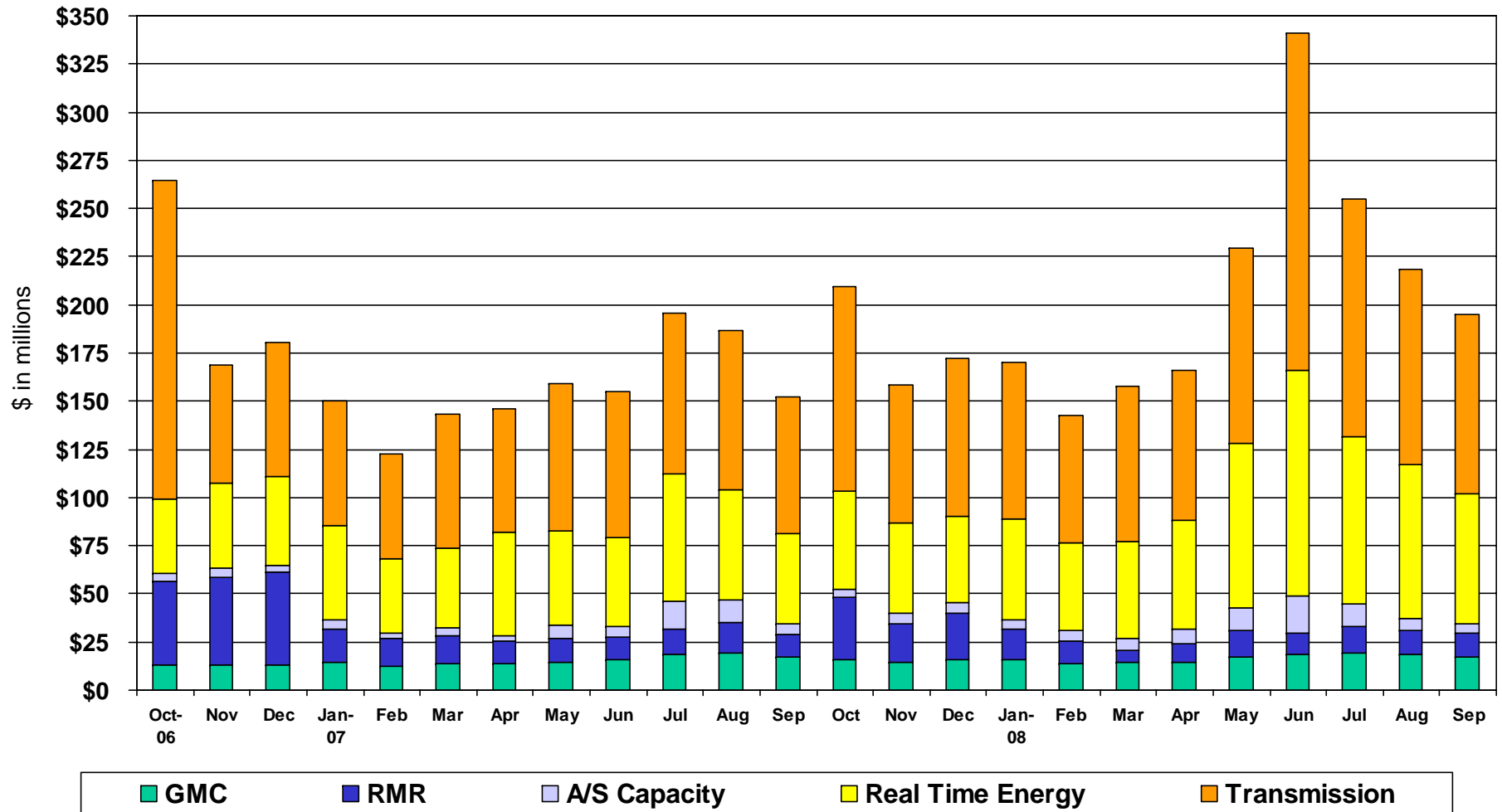


CAISO Market Costs By Quarter

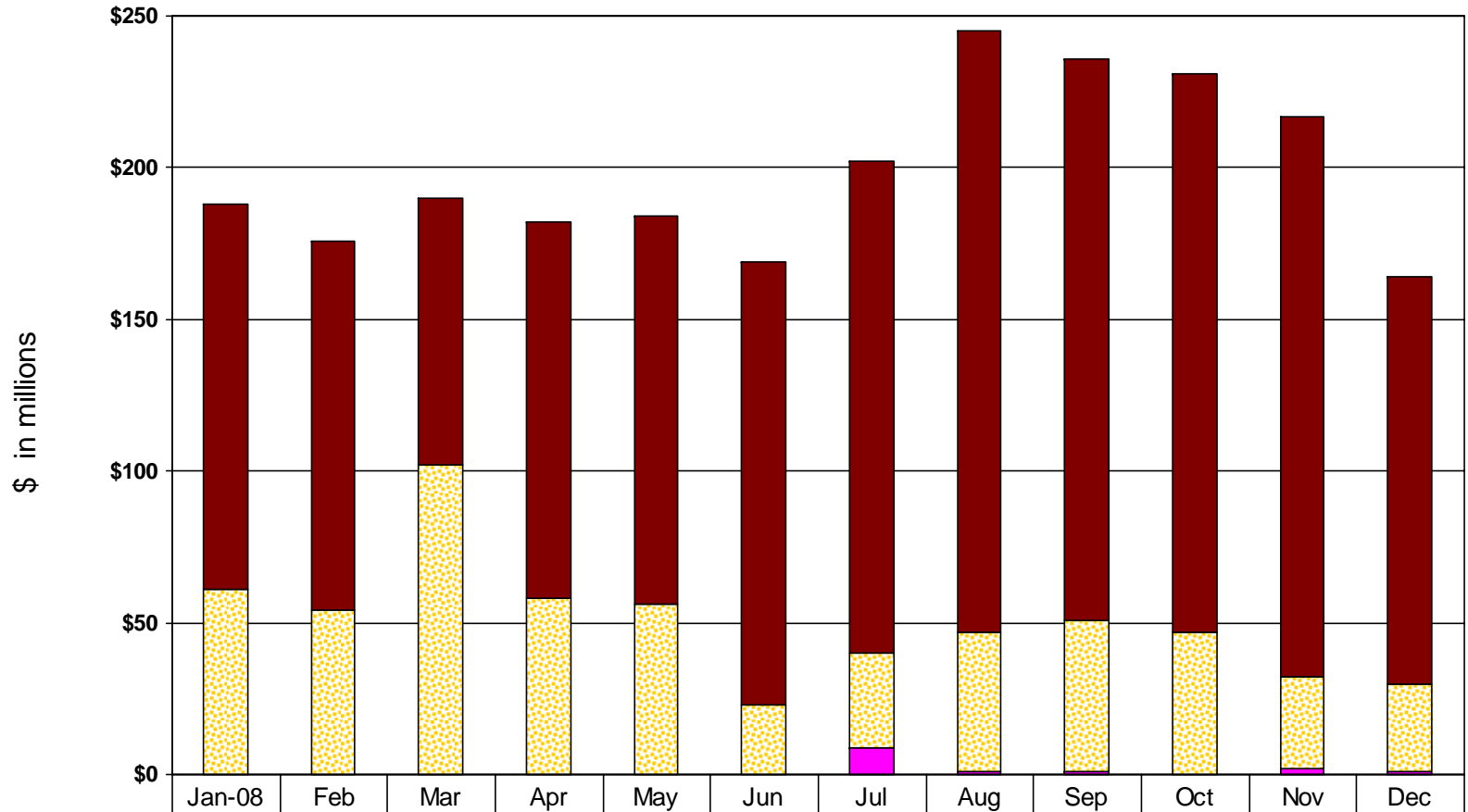
4th Quarter 2002 through 3rd Quarter 2008



CAISO Market Costs By Month October 2006 through September 2008



Outstanding Obligations of Market Participants



■ Backed by UCL or GRN	127	122	88	124	128	146	162	198	185	184	185	134
■ Backed by posted security	61	54	102	58	56	23	31	46	50	47	30	29
■ Outstanding security requests	0	0	0	0	0	0	9	1	1	0	2	1

Outstanding obligations are estimated using available historical settlements data. The "Backed by UCL or GRN" category includes Unsecured Credit Limits (UCL) and Guarantees (GRN). Posted security includes letters of credit, surety bonds, cash deposits held in escrow, certificates of deposit, payment bonds, and prepayments to the CAISO.

Backing for Estimated Aggregate Liability (EAL) by Credit Quality

